THE STATE AND THE ECONOMIC RECOVERY

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Abstract

World economy undergoes the century's most serious crisis. At the same time, worldwide population is facing the food and energy crises, the climate change, poverty and a strong economic outlook uncertainty. Several developed countries feel the recession effects, while developing countries record lower development assistance levels. This trend may impact considerably those vulnerable and marginalized groups, especially women (according to the World Bank's programmes). On this background, the state must have an active role; the decisions to be further made by the European leaders at micro and macroeconomic level will affect the worldwide population.

Key-words: *economic crisis, state, development strategy, European funds, emer-ging markets, small and medium - sized enterprises*

JEL Classification: A10

Introduction

The world is facing the most serious recession since 1930. Although it does not originate in the developing countries, such states undergo severe financial conditions and the trade sector records a decrease. Poverty and hunger are on the increase and the Millennium Development Objectives set by the international community to eliminate poverty and hunger will most likely fail to be achieved. Children, women, poor workers, emigrants and the already deprived people are most exposed. Environmental degradation and social tensions are other consequences of the recession. The labour market is also at risk.

The financial and economic global crisis comes after the 2008 food crisis, which is not over.

Reduced investments in environmental protection, energy, renewable energy, water and land management, as well as in afforestation measures would result in low endurable development and climate change efforts. Prolonged recession and an insufficient focus on social needs would entail social issues, increased crime and decreased governmental authority.

The situation in the developing countries – least responsible for the crisis, but most affected – has determined some economists warn on "losing some development decades", which would impact considerably both wealthy and poor countries.

Literature review

Most Romanian analysts have tackled the economic and financial crisis in various publications, such as: "Money Express", "Capital", "Economistul", "Ziarul Financiar", "Tribuna economică", while the World Bank's forecasts may be tread in "Global Economic Prospects", "Global Development Finance"; "Journal of Economic Growth" includes various interesting ideas of foreign economists. "World Economic Outlook (WEO)" includes reports on the economic development projects at global level, regularly published by the International Monetary Fund.

1. **Solving the actual problems of the mankind generated by the economic and financial crises**

After coping with high prices in food, fuels and fertilizers, as well as with the climate change effects, the developing countries face a rapid decrease in sales and in import/export operations. The World Bank which describes the crisis as an "emergency situation in progress" estimates a potential financial deficit amounting up to 700 billion dollars and the risk of "losing a generation" with an estimated juvenile mortality rate of 1,5 to 2,8 millions by 2015.

Ban Ki– moon, the General Secretary of UNO warns on the fact that the entire "international community should have in view the problems and poor living standard of hundreds of millions of people from the developing countries".

Some major reunions of world leaders and experts and the adopted declarations on solving the economic and financial crisis– related issues are mentioned below:

– the G20 Summit from Pittsburgh, 24 and 25 September 2009;

– the G20 Summit from London on April 2, 2009;

– the G8 Summit from L'Aquila (Italy) between 8 and 10 July 2009;

– The Millennium Declaration, adopted by the United Nations Organization on 8 September 2000, which defines the Millennium Development Objectives set by the international community in order to eliminate poverty and hunger;

– The European Agreement on development and the EU Code of ethics on complementarity and the division of labour within the development strategy;

– The Monterrey Agreement, adopted at the International Conference on Development Funding held in Monterrey (Mexico) between 18 and 22 March 2002;

– The Paris Declaration on aid efficiency;

– The Accra action plan;

– the report of the International Monetary Fund (IMF): "The implications of world financial crisis on poor countries – update", published in September 2009;

– the IMF report: "World Economic Outlook – supporting the recovery process", published in October 2009;

– The IMF report: "World Economic Outlook Update", published in January 2010;

– the World Bank's report: "Fostering progress: the challenges facing the poor countries on the world recession background", published in September 2009;

– the World Bank’s report: “Funds for development at world level: a world recovery agenda 2009”, published in June 2009;

– the World Bank’s report: ”World economic prospects – crisis, finances and growth”, published in January 2010;

– the 2009 European report on development: “Redressing the weaknesses in Africa – elaborating a new European strategy”, published in October 2009;

– the report of the UNO action Group on preventing the delays in attaining the Millennium Development Objectives: "Strengthening the world partnership for development on the crisis background”, published in September 2009;

– the International Conference on Development Funding, organized in Doha, Qatar between 28 November and 2 December 2008;

– the recommendations of the Expert Commission for the financial and monetary reforms at international level, formulated by the President of the UNO General Assembly, published in March 2009.

In Romania, the economic and political context at world and European level, as well as the effects of the current economic and financial crisis impose a long–term strategy enabling our country to regain its position as a competitive and sustainable power. Moreover, an initiative in this respect has already been formulated at the EU level as well, in effect by 2020. The crisis has determined researches worldwide analyse the state’s role in the economy. Therefore, all experts and policy– makers from each country join their efforts to reach a national agreement in order to cope with the crisis– related challenges.

At the beginning of the new millennium the analysts, banks and governments wouldn’t have imagined interventionism and capitalism coexist. Nowadays, most experts deem it a viable solution. During the past few years, the most powerful states have passed from one side to another: from free markets and lenient legislation to nationalized banks and more strict legislation. In other words, from John Maynard Keynes to Milton Friedman and now back to Keynes.

After a time in which the neoliberal doctrine imposes the minimal state concept, apparently this aspect has been reconsidered on the current crisis background, by recognizing the need of a state with a more important role and a power comparable to the one of the market mechanisms.

2. **Romania and the economic crisis problems**

This aspect has not been highly addressed in our country in the last twenty years. Regardless of the extent to which the state’s role in the national economy has been theoretically explored, upon the change in the 1990 political regime, practice reveals an original role of the state, compared to the one adopted in the former communist countries. Romania being currently ranked last or the one before last on the European development scale can be the result of the state’s original involvement in an ailing economy. Specialists highlight the underlying causes of this critical situation, as follows:

a. In a modern economy, the state becomes an instrument contributing to the proper operation of the market institutions and mechanisms. In Romania, the market institutions have become the state's instruments. This is the reason why we can hardly say we witness an important conceptual change in the state's role in the economy. Such a change would involve understanding and accepting the capitalist model of development in its current structure.

b. The post 1990 governments' attempts to adjust the state's role or to make it original or particular, based on political or context interests, fail to improve the economy. The 1990– 1996 conception according to which Romania should adopt an original strategy by developing the market social economy– like state or a Scandinavian– like one, characterized by a 2004– 2008 based highly developed social security system hinders the state reforms implementation. The current Government perceiving the state's reforms only in point of the staff cut is also an inefficient approach. The state's role in modern economy involves three prerequisites:

– guaranteeing private property and its decisive role in motivating the business entities;

– stimulating free initiative;

– making the market relations democratic.

No deviation from or construction of these prerequisites is permitted irrespective of the political interests or even the IMF agreements objectives.

c. The Romanian state cannot provide the proper operation of the economic sector through the observance of competitive economy rules and principles; moreover, various "beginners" holding information unavailable to most business entities and enjoying political support are promoted on the market. The state and the market do not cooperate in point of consolidating their roles of producers and distributors of goods and services, on the private/public correlation background.

The overwhelming pressure of the politic over the economic has a biunivocal effect: it interferes with the market mechanisms and with the democracy ones exercised through the public institutions.

After twenty years of transition, Romania is still incapable to capitalize the economic, social, cultural, educational and informational advantages of the European capitalist system. This translates in the fact that although on the pressure of international negotiations, the state has managed to develop the market institutions, it has continued its active interference in order to meet the political clientele's interests, which in fact has hindered the progress.

Judging from the development model we should rather be part of the Latin American countries group than of the European Union. Major income inequities, serious social polarization, generalized corruption and political instability are more specific to the Latin American model than to the European one.

3. **Romania's development strategy shaped by the actual government**

The development strategy outlined by the current Government should have in view Romania's membership to the EU and to the group of the states with emerging economies. The emerging markets are specific to the states experiencing an accelerated growth, either during the transition from a centralized to a market economy, or during the post-crisis recovery process. These markets are more exposed to instability because the developed markets specific mechanisms are not entirely operational. This element is vital in elaborating the development strategy. Having in view these realities, we can identify and launch programmes adjusted to our country's specific features and we can inspire from the successful strategies elaborated by many countries from this group. Let's not overlook that the emerging countries are nowadays the engine of global development. Brazil, China, India or South Africa have been less affected by the crisis due to their dynamic economies. An example from Europe is Poland, a country experiencing an economic growth during the crisis due to the fact that it invests the European funds, considering that foreign investments record low levels. Poland is the only European country experiencing an economic growth in 2009, while other member states undergo recession; Romania, for example, records a decrease of 7,1% in the GDP. The European funds seem to be our only solution for the economic recovery, given the decreasing direct foreign investments and consumption (the economic growth engine in the past).

The development strategy must identify the available resources of our country (human and financial) and set clear ways to rationally and efficiently use such resources. Priorities must also be set. The major sectors, such as: agriculture, energy, some manufacturing industries, infrastructure and tourism must be the state's priorities. The state's involvement is vital in such a context, not only in point of developing a strategy or in its capacity as resources administrator, but especially as an active player in the development of various projects and in the proper operation of some companies and branches. Besides taking part in public projects the state may directly or indirectly become a partner (even shareholder for a limited period) within private firms/companies of national interest in order to support them to cope with the crisis and to maintain (increase) the domestic or international market share. Unfortunately, the small and medium– sized enterprises, considered by many developed countries (see Germany, Austria, France and the like) the engine of the economic recovery and workforce usage, face bankruptcy. In the last three months, other 8,000 firms have been subject to bankruptcy. As Greece, Romania becomes insolvent although the fifth tranche from the International Monetary Fund is disbursed. The state must facilitate cooperation with the important national manufacturers (multinational companies or foreign capital regional firms), with the Romanian small and medium– sized enterprises, so that the latter become subset providers for the end products of the former and beneficiaries of some technologies and know– how to make them competitive on the domestic and foreign market. It is common knowledge that exports play an important role in the economic recovery process. Romania belongs to the group of emerging countries which play an active part in foreign trade. Many of these players wish to develop relations with our country, to finance important projects, but what can Romania offer in exchange to maintain a fair trade balance?

A development strategy assumed by our country will have an impact on the international markets as well: new clarity and sustainability elements rating agencies take into account to measure more accurately the stability level in Romania. This increases the investors' trust determining them to become partners in important development projects.

A strategy accepted at national level would send a stronger signal of stability and economic recovery to the Romanian banking system, which would consider funding the companies and householdings. The banks non– involvement in the economic recovery process may entail serious issues.

A national development strategy will draw international private funds at the convenient terms and costs for our country. We need to draw resources from the domestic and European markets, having in view the still reduced capacity to pay the dues (current expenses, loan repayment, high interests payment).

The development strategy should include adopting the EURO currency, a nationally assumed mission. The attainment of this objective by 2015 requires a nationally assumed decision and a blend of strategies and programmes covering not only the monetary and currency area, but the fiscal and economic ones as well. The EURO adoption criteria are very strict. So are the steps to be taken in this respect. Given the serious issues facing some Euro Zone countries and the joint efforts to implement economic recovery programmes requiring extraordinary resources, the EU and European Central Bank leading authorities will be more strict when analysing and deciding upon Romania adopting the EURO currency.

Conclusions

In many respects, the global crisis has been the catalyser of the severe economic crisis foreseen by the Romanian analysts and businessmen.

According to the general view, our country will follow the great powers path towards recovery. Some of them (The United States, Germany, France) are heading in the right direction. Therefore, we can anticipate a similar trend in the second half of 2010 at the latest. Oddly or not, in Romania’s case the major shortcomings are in fact the main advantages because they are beneficial for businessmen and implicitly foster the economic recovery.

The best example is infrastructure (not only the transport infrastructure, but various other facilities, such as: hospitals, education institutions, waste management systems, lighting systems, leisure facilities and the like). The economic downturn may be counterbalanced through sustained efforts, the European funds being an important funding source. Moreover, as the investors’ involvement in the Eastern Europe, including in Romania increases, the public/private partnership model gains more credibility. A successful project depends largely on the politicians’ wisdom who must understand the economic value of such a project and to objectively support its development.

The projects must be started as soon as possible and carried on under the initial terms, irrespective of the changes in the political regime. The investors need continuity in order to implement long– term strategies while establishing constructive cooperative relations with the state and the public institutions is a prerequisite in this context. For a long time the economic growth was due to a prosper business environment. The crisis struck the private sector and now the economic recovery is at the public sector’s hands. In this context, the state must improve the entire system and take steps for reducing bureaucracy, professional improvement and improving the quality of services. A transfer of mentality and pragmatism from the private to the public sector is required. This is the prerequisite for a sustainable economic growth.

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